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EFFECT OF MACROECONOMIC VARIABLES ON FINANCIAL PERFORMANCE OF TEA BUYING FIRMS IN MOMBASA TEA AUCTION

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Abstract: **The general objective of the study was to investigate the effect of macroeconomic variables on financial performance of tea buying firms in Mombasa Tea Auction. The specific objectives of the study were: to establish the effect of tea valuation pricing on financial performance of tea buying firms in Mombasa Tea Auction; to examine the effect of exchange rate on financial performance of tea buying firms in Mombasa Tea Auction; to assess the effect of bank interest rate on financial performance of tea buying firms in Mombasa Tea Auction and to find out the effect of inflation rate on financial performance of tea buying firms in Mombasa Tea Auction. The theoretical framework of the study consisted of Market Segmentation Theory, Fisher's Hypothesis Theory, Theory of Exchange Rate and The Modern Portfolio Theory (MPT). This research adopted a cross-sectional survey research design aimed at collecting large number of qualitative and quantitative data at a point in time to address the formulated hypotheses. Census technique was used to select sample size of 120 respondents from the target population of 120 respondents in tea buying firms in Mombasa Tea Auction. Primary data was collected by use of self-administered structured questionnaires which was distributed through the drop and pick method. The secondary data collected was used to cross validate the primary data results. The collected data was analyzed quantitatively and qualitatively. Descriptive and inferential statistics was done using Statistical Package for Social Sciences (SPSS) version 24 and specifically multiple regression model was used for hypotheses testing. Set of data was described using percentage, mean, standard deviation and coefficient of variation and presented using tables. The study revealed that macro-economic variables had a statistically significant effect on financial performance of tea buying firms in Mombasa Tea Auction. Tea Valuation Pricing had a statistically significant effect on financial performance of tea buying firms in Mombasa Tea Auction. Exchange Rate had a statistically significant effect on financial performance of tea buying firms in Mombasa Tea Auction. Bank Interest Rate had a statistically significant effect on financial performance of tea buying firms in Mombasa Tea Auction. Inflation Rate had a statistically significant effect on financial performance of tea buying firms in Mombasa Tea Auction. The study recommended that the Kenyan Government should enact favorable policies to keep the checks and balances on tea valuation pricing, exchange rate, bank interest rate and inflation rate so as to cushion the tea subsector industry and enhance financial performance of the tea buying firms in Mombasa Tea Auction.**

Keywords: **macroeconomic variables, financial performance, Mombasa Tea Auction.**

1. INTRODUCTION

Background of the study:

Tea leads as a cash crop in Kenya contributing the highest foreign exchange in the Agriculture sector. Tea production value in 2017 was estimated to be USD 24.4 billion (World Tea News, 2018) and USD 50.7 billion in retail value (Euromonitor International, 2018). Tea in Kenya is grown in the following regions: Thika, Kisii, Trans-Nzoia, Nyeri, Kericho, Nandi, Embu, Kakamega, Nakuru, Meru, Bomet and Kirinyaga. Kenyan tea accounts for 10% of the global production and constitutes 22% of total Kenya export (Tea Research Foundation Kenya, 2015). Tea for export in Kenya is

sold in dollar denominated currency through auction at Mombasa. This market is run by East Africa Tea Trade Association (EATTA). Macroeconomic environment fluctuates as noted by Karingi (2013) thus affecting tea prices and the government is charged with fronting economic policy interventions to stabilize this environment. In the contemporary business environment, commodity prices are volatile. World tea prices are not exempt. Prices from three major tea auctions: Calcutta, Colombo and Mombasa varied widely during 2012 – 2016. International tea prices have been kept artificially low by a persistent oversupply fueled by fierce competition between producing countries. Global production has continually increased despite severe drought in the major tea producing countries of India, Sri Lanka and Kenya. Global tea output is ahead of demand by consuming countries and impacts tea pricing in the global tea market.

Tea auctions have played a key role as the main vehicle for primary marketing of tea in Africa and the other tea producing nations of the world (Sarkar, 2013). There are three options of marketing tea – auction, ex-factory and forward contract (TBK, 2014). Among these the public auction system plays the most important role and the price realized at the auction serves as the bench-mark price for ex-factory and forward contracts. Tea is not a homogenous product and the quality of tea not only varies across estates but also varies over time in a single estate. There are different grades of tea produced out of a given amount of green tea leaves. In such a context, auction provides the best mechanism for the price discovery of tea. Auction mechanism further enables large number of buyers and sellers of tea to assemble in a single place and decide about the quality and price through competitive bidding process. Although there are certain inherent flaws in auction mechanism like cartelization, proxy-bidding and divisibility of lots, the auction system remains critical in price determination and influences the survival of the tea industry as a whole. Malawi is the second largest tea producer and exporter in Africa after Kenya. Tea ranks third in terms of export value after tobacco and sugar.

Statement of the Problem:

Tea export prices have been falling for a considerable period in dollar terms (Sarkar, 2013). This fall in global prices of tea is different from long-run depreciation in primary commodity prices as elucidated in the Prebisch-Singer hypothesis where prices fall because of the relative inelasticity of commodity demand. The price of tea determines the expected return to investors in the tea industry. Tea prices directly affect earnings to the farmer and the level of foreign exchange derived from tea exports by the respective countries where the tea producers are located. The tea sub-sector plays an important role in socio-economic development of each country. The sector accounts for about 12% of the Agricultural GDP and 4% of the National GDP and contributes significantly to rural infrastructure development (Tea Directorate Export Report, 2015). According to Granof (2013), financial performance and fiscal health can best be described by financial ratios which relate one aspect of a firm's performance or status to another. Gitman (2016) avers that ratio analysis involves methods of calculating and interpreting financial ratios to analyze and monitor the firm's performance. The Taskforce Report on the Tea Industry (2016) close examination of farmer incomes and payment trends shows that they are closely influenced by the prevailing market prices.

Tea market price shocks quickly translated to the industry incomes and hence returns to the farmers. The auction market price volatility of tea ultimately impacts on the farmers' returns. For example, in the last quarter of 2014, tea farmers experienced a Kshs. 15.8 billion drop in bonus earnings as a result of a sharp drop in international prices which reduced their pay to a four-year low. Chang and Bratloff (2015) in their report on the Kenya Tea Value Chain observed that in 2013/2014 (August/July), the average price for Kenyan tea at the Mombasa Auction fell by 30% percent (at the global level tea prices fell by 15%) causing an outcry from tea smallholders as monthly payments of green leaf, without the "mini-bonus", was not likely to sustain their livelihood. Because of the decline in prices, tea smallholders paid lower second interim payment, popularly referred to as the "mini-bonus". The tea trade has been experiencing unstable prices. For the last seven years, the trade has experienced a high price volatility with the lowest prices recorded in the year 2014 at USD$2.03 and highest price in 2017 at USD $2.79. In general, the prices have experienced a standard deviation of 0.31 which is a substantial number given that the prices are dollar denominated. The tea prices realized at the Mombasa Tea Auction during the period 2013 to 2015 have experienced a fluctuating trend. This consequently affects the predictability of earnings for firms in the sector which directly impacts on the farmer's earnings thus impacting on the viability of the tea industry as a whole. The tea industry faces challenges such as low returns, cost of capital and labor in the tea production process. In Kenya, low tea prices negatively impact the livelihood of the 5 million people, including the 650,000 smallholders who depend on the sub-sector for their livelihood. There is need for stabilizing the earnings to farmers hence the need to examine key factors to set a policy framework to stabilize the trade sector of the tea value chain.

Tea trade in Kenya is conducted through an international Auction platform and is driven by market forces (Deaton & Miller, 2015). Tea earnings computed in US dollar per kilogram keep fluctuating thus bonus pay are unpredictable (Cosmas & Changwony 2014). In this context, macroeconomic variables namely; Gross Domestic Product (GDP), Bank lending rate, Exchange rate of (USD) United State dollar versus the Kenya Shilling (Kshs.) and Inflation are thought and this perception supported by empirical studies to have effect on financial performance of Tea Sector in Kenya measured by average tea price per kilogram in the Mombasa Tea Auction (Muthamia & Muturi, 2015). Both Kshs. and the hard currency (US Dollar) are bound to fluctuate depending on local and international trade dynamics respectively (Deaton & Miller, 2015). Tea farmers cannot predict the bonuses received from sale of their tea at Mombasa Tea Auction. Despite increase in volumes of teas sold at the MTA, tea buying firms have experienced unsteady growth in revenue. It is for this reason that this study sought to find out the effect of macroeconomic variables on financial performance of tea buying firms in Mombasa Tea Auction.

Research Objectives:

This study was guided by both general and specific objectives.

General Objective:

The general objective of the study was to investigate the effect of macroeconomic variables on financial performance of tea buying firms in Mombasa Tea Auction.

Specific Objectives:

1) To establish the effect of tea valuation pricing on financial performance of tea buying firms in Mombasa Tea Auction.
2) To examine the effect of exchange rate on financial performance of tea buying firms in Mombasa Tea Auction.
3) To assess the effect of bank interest rate on financial performance of tea buying firms in Mombasa Tea Auction.
4) To find out the effect of inflation rate on financial performance of tea buying firms in Mombasa Tea Auction.

Research Hypothesis:

1) **$H_0$1:** Tea valuation pricing has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction.
2) **$H_0$2:** Exchange rate has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction.
3) **$H_0$3:** Bank interest rate has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction.
4) **$H_0$4:** Inflation rate has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction.

2. LITERATURE REVIEW

Theoretical Framework:

Market Segmentation Theory:

A modern theory pertaining to interest rates stipulating that there is no necessary relationship between long and short-term interest rates. Furthermore, short and long-term markets fall into two different categories. Therefore, the yield curve is shaped according to the supply and demand of tea within each maturity length. It is also called the "Segmented Markets Theory" which states that most buyers have set preferences regarding the length of maturities that they will invest in. Market segmentation theory maintains that the buyers and sellers in each of the different maturity lengths cannot be easily substituted for each other. An offshoot to this theory is that if a buyer chooses to buy outside their term of preference, they must be compensated for taking on that additional risk. This is known as the Preferred Habitat Theory. The price of tea is determined by the present value of the future cash flows. The present value of the future cash flows is calculated by discounting the future cash flows at a discount rate. Money supply has a significant relationship with the discount rate and hence, with the present value of cash flows. There are competing theories on how money supply affects tea market prices. The competing theories examined here are the ones developed by the real activity theorists and by Sellin (2015). Sellin

(2015) argues that the money supply will affect tea prices only if the change in money supply alters expectations about future monetary policy. He argues that a positive money supply shock will lead people to anticipate tightening monetary policy in the future. The subsequent increase in bidding for bonds will drive up the current rate of interest. As the interest rate goes up, the discount rates go up as well and the present value of future earnings decline, as a result, stock prices decline.

Fisher's Hypothesis Theory:

The linkage between tea market performance and inflation if any has drawn the attention of researchers and practitioners alike particularly since the twentieth century. The foundation of the discourse is the Fisher (1930) equity stocks proclamation. According to the generalized Fisher (1930) hypothesis, equity stocks represent claims against real assets of a business; and as such, may serve as a hedge against inflation. If this holds, then investors could sell their financial assets in exchange for real assets when expected inflation is pronounced. In such a situation, stock prices in nominal terms should fully reflect expected inflation and the relationship between these two variables should be positively correlated ex ante (Ioannides, *et.al.* 2015). This argument of stock market serving as a hedge against inflation may also imply that investors are fully compensated for the rise in the general price level through corresponding increases in nominal stock market performance and thus, the real performance remain unaltered. Further extension of the hedge hypothesis posits that since equities are claims as current and future earnings, then it is expected that in the long run as well, the stock market should equally serve as a hedge against inflation. Hence this concept also applies in the tea auction process and pricing.

Review of Literature of Study Variables:

Tea Valuation Pricing:

The manufacturing process of withering, rolling, oxidization, drying, sorting and packaging will determine the final flavor, appearance, type and quality of tea produced. This will also determine the cost of production hence leading to the price determination of tea. Market forces of tea demand and supply represent the aggregate influence of self-interested buyers and sellers on tea price and quantity offered in a market. In general, excess demand of tea causes prices and quantity of supply to rise, and excess supply causes them to fall. This indeed affects the performance of tea buying firms in Mombasa Auction. The Mombasa Tea Auction follows the normal pattern of supply and demand: prices rise when there is strong competition and fall when there is less demand. Teas for which there is no demand, or where prices offered are not considered high enough by the broker, are "taken out", i.e. not sold (EATTA, 2015). Improved tea prices in year 2017 were attributable to good demand against lower supply of tea in the first quarter of the year due to hot and dry weather conditions (AFA Tea Directorate, 2017). The Mombasa market is dominated by a few large buyers. The market is however very competitive, with some client contracts changing hands because of negligible price differences. It is the buyer's responsibility to meet his clients' requirements as efficiently and as cheaply as possible, or risk losing these clients to competing buyers. Buyers operating in the Mombasa Tea Auction will have different quantities to purchase and different price limits. As the bidding for each lot continues, the price will continue to rise until some buyers' limits are reached and the demand for tea reduces to the amount of tea on offer. After tasting tea, professional tasters select teas to produce the desired blend. Buyers who buy teas for blending as bulk standards for clients are categorized as 'Blenders'. Buyers use blending as a price reducer strategy to make teas more affordable to their clients. To satisfy their clients' order efficiently within the price limit provided, the Blenders spread their buying to purchase teas of varying prices so that the average price for the blend is lower than the client's limit. To achieve this, the Blenders pull down prices at the Mombasa Tea Auction so as to purchase high quality teas at low prices.

The various tea grades are valued by various stakeholders through tasting, prior to offer for sale at the Mombasa Tea Auction. Each stakeholder prepares a valuation report based on testing of various tea grades that would be offered at the Auction to serve as a reference point for their transactions. At the point of production, the tea producer tastes and values the tea to determine the price the particular tea grade is expected to fetch. The Broker who offers the tea at the auction on behalf of the producer gives each lot of tea a valuation to determine the asking price at the auction, based on factors such as the previous week's price for similar tea and any changes in quality. The Tea Buyer also tastes and values the tea to determine the price that he will be willing to pay for that tea at the Auction (EATTA, 2015). Tea Buyers' fit into three broad categories: those who buy and ship individual lots on orders from clients; those who buy teas for blending as bulk standards for clients and those who buy on their own account for stock and trading. They will put their own valuations on

each tea, depending on its suitability for their requirements. Tea Buyers' will then set their own quantity and price targets or receive instructions from clients (EATTA, 2015). Teas are sold under Factory Marks, i.e. the names of the factories where they are produced. The tea is sorted into various leaf sizes, known as 'grades'. These are known by standard abbreviations such as PF1, PD and Dust. Two teas graded PF1 can have very different taste characteristics and even a different leaf size and appearance.

Exchange Rate:

Over the past few decades, determining the effects of macroeconomic variables on tea prices and investment decisions in the tea industry has preoccupied the minds of economists, therefore in the literature; there are many empirical studies to disclose the relationship between macroeconomic variables such as interest rate, inflation, exchange rates, money supply, oil price, gold price and tea price indices. However, the direction of causality still remains unresolved in both theory and empirics. Exchange rate is a key determinant of a country's exports. Depreciation of the currency makes exports more competitive and appear cheaper to foreigners. Generally, a higher exchange rate is expected to have a positive impact on the tea export earnings. The Mombasa Tea Auction is US Dollar denominated and 95% of teas sold through the Auction are exported. The exchange rate between the US Dollar and the Kenya Shilling fluctuate over time and the cash flows required in making payments change accordingly. Exchange rate fluctuations affect the foreign demand for Kenya's tea. When the Kenya Shilling strengthens, Kenyan tea becomes more expensive to foreign customers. Foreign exchange exposure occurs in four forms:

Translation Exposure – also called accounting exposure. Foreign currency financial statements must be restated in the parent company's reporting currency for consolidation purposes. To be consolidated, each subsidiary's financial statement must be translated into the currency of the Multinational Company's (MNC) parent. The exposure of the MNC's consolidated financial statements to exchange rate fluctuations is known as translation exposure. From a cash flow perspective today's spot rate serve as a forecast of the spot rate that will exist when earnings are remitted. Thus, expected future cash flows are affected. Transaction Exposure – this result from foreign currency transactions and foreign currency borrowing. The tea exporters sell tea to their overseas clients on credit. The credit transactions will be settled at exchange rates which are different compared to spot exchange rates between the USD and KES at the date of the transactions. This will result in exchange gains or losses depending on the movements in exchange rate. Thus, the risk of a transaction exposure is that the exchange rate might change between the present date and the settlement date. Economic exposure – also called operating exposure. It measures the change in the present value of the firm resulting from any change in expected future operating cash flows of the firm by an unexpected change in exchange rates. Currency fluctuation - this refers to changes in currency value in relation to another currency. Currency value is generally linked to supply and demand of the two currencies in the marketplace which can be affected by level of business activity within a country or a central bank's intervention in the money supply. When a central bank increases interest rates, it can increase demand for that country's currency. The Mombasa Tea Auction is US Dollar denominated yet most of the businesses and transactions of the stakeholders are conducted in Kenya Shillings, the domestic currency. The currency levels affect a number of key economic variables such as interest rate on loans and returns on investments.

Bank Interest Rate:

Changes in interest rates can have both positive and negative effects on the tea markets and prices. When the Central Bank changes the rate at which banks borrow money, this has a ripple effect across the entire economy (CBK, 2017). The existence of interest allows firms to spend money immediately, instead of waiting to save the money to make a purchase. The lower the interest rate, the more willing firms are to borrow money to make big purchases, such as tea stocks. When firms pay less in interest, this gives them more money to spend, which can create a ripple effect of increased spending throughout the economy. Tea factories and farmers also benefit from lower interest rates, as it encourages them to make large equipment purchases due to the low cost of borrowing. This creates a situation where output and productivity of tea increases (TBK, 2016). Conversely, higher interest rates mean that firms don't have as much disposable income and must cut back on spending. When higher interest rates are coupled with increased lending standards, banks make fewer loans. This affects not only tea buying firms but also tea factories and farmers, who cut back on spending for new equipment, thus slowing productivity or reducing the number of employees. The tighter lending standards mean that firms will cut back on spending, and this will affect many businesses' bottom lines. This will cause the businesses to reduce the number

of employees that they have and to hold off on any major equipment purchases. Rising or falling interest rates also affect firms and business economic muscle. When interest rates are rising, both tea firms and consumers will cut back on spending. This will cause earnings to fall and stock prices to drop. On the other hand, when interest rates have fallen significantly, consumers and businesses will increase spending, causing stock prices to rise (World Bank, 2014).The government employs monetary policy to check on interest rate. Monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds and changing the amount of money banks are required to keep in the vault (CBK, 2014).

The relationship between interest rates and tea stock prices has received considerable attention in the empirical literature. Lee (2017) used a three-year rolling regression to analyze the relationship between stock market performance and the short-term interest rate. He found out that the relationship is not stable over time. Jefferis and Okeahalam (2013) worked on the South Africa, Botswana and Zimbabwe stock market, where higher interest rates are hypothesized to depress stock prices through the substitution effect, an increase in the discount rate or a depressing effect on investment and hence on expected future profits. Arango, Gonzalez and Posada (2012) found that some evidence of the nonlinear and inverse relationship between the share prices on the Bogota stock market and the interest rate as measured by the interbank loan interest rate, which is to some extent affected by monetary policy. The model captures the stylized fact on this market of high dependency of performance in short periods. Hsing (2014) adopted a structural VAR model that allows for the simultaneous determination of several endogenous variables such as output, real interest rate, exchange rate, stock market index and found that there is an inverse relationship between stock prices and interest rates. Zordan (2015) said that historical evidence illustrates that stock prices and interest rates are inversely correlated, with cycles observable from well back in the 1880‘s.

Uddin and Alam (2017) examined the linear relationship between share prices and interest rate, share prices and changes of interest rates, changes of share prices and interest rates and changes of share prices and changes of interest rate on Dhaka Stock Exchange (DSE). For all of the cases, included and excluded outlier, it was found that interest rate has significant negative relationship with share price and changes of interest rate has significant negative relationship with changes of share prices.

Inflation Rate:

Inflation is a sustained rise in the general price level. Inflation can come from both the demand and the supply side of an economy. Inflation can arise from internal and external events. Some inflationary pressures arise direct from the domestic economy, for example the decisions of utility businesses providing electricity or water on their tariffs for the year ahead, or the pricing strategies of the food retailers based on the strength of demand and competitive pressure in their markets. This study has considered the following factors of inflation: The CPI represents prices paid by consumers (or households). Prices for a basket of goods are compiled for a certain base period. Price data for the same basket of goods is then collected on a monthly basis. This data is used to compare the prices for a particular month with the prices from a different time period. CPI is aided by the substitution effect of a good - if the price goes up for one good, consumers may substitute another good that provides similar utility. A common example is tea vs. coffee. If the price goes up and the price of coffee stays the same, consumers might easily switch to coffee. Although the CPI will go higher due to the price increase in tea, many consumers may not be worse off. Also, when prices go up, consumers may effectively not pay the higher prices by switching to discount stores. The CPI surveys do not check to see if consumers are substituting discount or outlet stores. Demand-pull Inflation – Increasing demand pulls up prices. Proponents of the theory of demand-pull inflation argue that there is inflation when the aggregate demand (the total amount of goods and services desired in an economy) outpaces the aggregate supply i.e. prices shoot up when there is more competition for products in short supply. A government’s decision to increase spending can contribute to demand-pull inflation, so can lower tax rates that boost consumer spending. Cost-Push Inflation – this is inflation triggered by actions on the supply side. It occurs when firms respond to rising costs by increasing prices in order to protect their profit margins. Prices go up when manufacturing and production costs go up. When companies are forced to spend more money to pay for raw materials or to account for rising import prices, wages or taxes, they produce less. A smaller supply coupled with an unchanging demand leads to inflation and consumers then have to deal with higher prices. Costs associated with production can increase for a number of reasons. Raw materials can become more expensive if they become less readily available.

Governments can raise taxes if they need additional sources of revenue and employees can ask for higher wages. Businesses can drive up their prices in order to stay afloat and make profits. Credit-Induced Inflation - the policy of credit expansion also leads to increase in the money supply which raises the demand for goods and services in the economy. When credit from such sources as banks expands, it raises the money income of the borrowers which, in turn, raises aggregate demand relative to supply, thereby leading to inflation. Basically, there are four major hypotheses discussing the relationship between inflation and stock prices. These theories are fisherian hypothesis, proxy hypothesis, tax effect hypothesis and inflation hypothesis. Empirical studies on testing of these hypotheses have been mixed and a consensus has not yet emerged. While studies like Floros (2014), Ugur (2015), Pesaran *et a*l (2011), Crosby (2011), Spyros (2012), among others have found a negative relationship between inflation and financial performance; Patra and Posshakwale (2016) and Lee and Wong (2013) among others reported a positive relationship between these variables.

Financial Performance:

The basic inputs to ratio analysis are the firm's income statement and balance sheet. Financial ratios are divided into five basic categories: liquidity, activity, debt, profitability and market ratios. Liquidity, activity and debt ratios measure risk, profitability ratios measure return while market ratios capture both risk and return. The following ratios measure financial performance:

Return on total assets (ROA) – a profitability ratio often called the return on investment (ROI), measures the overall effectiveness of management in generating profits with its available assets. The higher the firm's return on total assets the better. It is expressed as follows: Return on total assets = Net income/total assets.

Current ratio – a measure of liquidity calculated by dividing the firm's current assets by its current liabilities, provides insight into the ability of the enterprise to meet its short-term debts. The higher the current ratio, the more liquid the firm is considered to be.

Net profit margin – a measure of profitability that measures the percentage of each sales shilling remaining after all costs and expenses, including interest, taxes and preferred stock dividends have been deducted. The higher the firm's net profit margin the better.

Debt ratio – measures the proportion of total assets financed by the firm's creditors. The debt position of a firm indicates the amount of other people's money being used to generate profit. The higher this ratio, the greater the firm's degree of indebtedness and the more financial leverage it has. The ratio is calculated as follows: Debt ratio = Total liabilities/Total assets.

Performance connotes milestones in target accomplishment (Fricher, 2017). To a business firm, it denotes the extent of meeting targets as given in specific fronts. Greenwood and Javonovica (2016) state that the magnitude of this accomplishment quantifies degree of increment to ultimately the shareholders' value linked to the quality and success of the decisions made by management in agency relationship. Business, corporate firms and organizational performance viewpoints have been expanded to cover non-financial aspects such as client care and product differentiation (Zeira, 2014). Differing facets of entity's measurement surrounding outcomes in human capital, organizational and business finance have been fronted recently by Muthamia and Muturi (2015).

Demirguc-Kunt, Laeven and Ross (2014) assert that good financial results are key to a firm's survival and how it thrives under uncertain and competing environs. Crane (2013) grouped indicators of business health into profitability, going concern and working capital adequacy. He further proposed that profitability is the ability to create earnings over expenses, going concern implies existence into the next foreseeable future while working capital adequacy implies ability to meet current liabilities as and when they are required to be met. Batten (2014) discussed relationship between profits generated in a firm with production factors that included capital, labor and entrepreneurship. Financial performance narrowing down to tea firms can be equated to improvement in revenues, net-earnings and return on capital employed as mirrored through competitive pricing (Sauza, 2012). When tea fetches high prices per kilogram sold on average in the market, this is construed to mean better business outcomes hence manifestation of healthy sector (Cosmas & Changwony, 2014).

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3. RESEARCH METHODOLOGY

Research Design:

This study adopted a cross-sectional survey research design aimed at collecting large number of qualitative and quantitative data at a point in time so as to establish the effect of macroeconomic variables on financial performance of tea buying firms in Mombasa Auction. A cross-sectional survey research design enabled collection of data about a given phenomenon within a limited time horizon which helped describe incidences of events or provided an explanation of factors related to an organization (Saunders, Lewis, and Thornhill, 2009). A cross-sectional survey research design was useful in overcoming time and budget constraints (Cooper and Schindler, 2013). Survey design have the advantages of being cost effective per respondent as compared to other methods; it employed easier method of data collection; it enabled the researcher to have a much larger sample size that could even range into thousands hence enhancing the accuracy of the conclusions arrived at. Finally, due to anonymity, respondents became more candid hence improving the accuracy of the data that was obtained. This was used to find out the effect of macroeconomic variables on financial performance of tea buying firms in Mombasa Tea Auction.

Target Population:

Target population consisted of all members of a real or hypothetical set of people, events or objects from which a researcher wished to generalize the results of their research while accessible population consisted of all the individuals who realistically could be included in the sample (Sekaran & Bougie, 2011). The population of the study comprised of two senior management employees from sixty tea buying firms in Mombasa Tea Auction registered by East African Tea Trade Association by December, 2016.This study was therefore comprised of 120 senior management employees drawn from sixty tea buying firms in Mombasa Tea Auction registered by East African Tea Trade Association by December, 2016 as shown in table 3.1 below. The selection of these figures was based on Fwaya, Odhuno, Kambona and Othuon (2012) whose study population was made up of hotel managers in the rank of General Manager, Assistant General Manager, Resident Manager and Operations Manager and hence, they chose the top four executives because they were knowledgeable about the measurement activities of the entire hotel. Similarly, sectional heads were left out because their measurement knowledge was restricted to their areas of operations. Therefore, this study chose two respondents as knowledgeable for each of the sixty tea buying firms in Mombasa Tea Auction to make 120 respondents.

Table 3.1: Target Population

BUYING FIRMS	Target Population
Abbas Traders Ltd	2
Afribridge Trade Exporters Ltd	2
Africa Tea and Coffee Company Ltd	2
Afro Teas Ltd	2
Aimco Enterprises	2
Akaba Investments Ltd	2
Al Itihad Limited	2
AL Khalifa Enterprises Ltd	2
Al-Emir Ltd	2
Alibhai Ramji (Msa) Ltd	2
Al-Itihad (1998) Ltd	2
Almasi Chai Kenya Limited	2
Apt Commodities Ltd	2
Black Dew Ltd	2
Cargill Kenya Ltd	2
CEMM Traders Ltd	2
Chai Trading Company Limited	2
Chamu Supplies	2
Cofftea Agencies Ltd	2
Devchand Keshavji (Kenya) Ltd	2
Diamond Tea Exporters (K) Ltd	2
DL Redwood Limited	2
Gacal Merchants Ltd	2

Global Tea & Commodities	2
Gokal Beverage	2
Green Leaf Trading Co. Ltd	2
Imperial Teas (EPZ) Ltd	2
Imperial Teas (Kenya) Ltd	2
Indo-African Tea Company (Kenya) Ltd	2
James Finlay (Mombasa)	2
Jawai Tea Ltd	2
Juja Coffee Exporters Ltd	2
Kinengena Agro and Mineral Logistics Ltd	2
Kirindo Tea Packers	2
L.A.B. International (K) Ltd	2
Lindop & Company (Kenya) Ltd	2
Lula Trading Co.	2
Lutex Limited	2
M.J. Clarke Ltd	2
Maymun Enterprises	2
Mcleod Russel Africa Limited	2
Mombasa Advance Logistics Limited	2
Mombasa Coffee Ltd	2
Mombasa Tea Traders Ltd	2
Pwani Hauliers	2
Ranfer Teas (Kenya) Ltd	2
Riotana Trading Limited	2
Sardia International Co. Ltd	2
Sasini Limited	2
Shakab Imports Exports Co. Ltd	2
SSOE (Kenya) Ltd	2
Stansand (Africa) Ltd	2
Summer Liners Company Ltd	2
Suwad Enterprise Limited	2
Tanjal Tea Company Ltd	2
Tecof Trading Ltd	2
Tropical Crops Commodities	2
Trust Tea Traders Ltd	2
United (E.A.) Warehouses Ltd	2
Van Rees bv	2
Total	**120**

Sample Size:

Sampling is the process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire population. Sample is a small group of objects or individuals selected or drawn from a population in such a manner that its characteristics represent population characteristics (Orodho & Kombo, 2012).

Sampling Technique:

Census technique was used to select a sample size of 120 respondents from the tea buying firms in Mombasa Tea Auction. The sample size was therefore 120 respondents. Census implies complete enumeration of the study units. Census technique was adopted since the study population was small. Table 3.2 shows two senior managers drawn from each of the tea buying firms in Mombasa Tea Auction to make a sample size of 120 respondents.

Table 3.2: Sample Size

BUYING FIRMS	Target Population	Sampling Technique	Sample Size
Abbas Traders Ltd	2	Census	2
Afribridge Trade Exporters Ltd	2	Census	2
Africa Tea and Coffee Company Ltd	2	Census	2

Afro Teas Ltd	2	Census	2
Aimco Enterprises	2	Census	2
Akaba Investments Ltd	2	Census	2
Al Itihad Limited	2	Census	2
AL Khalifa Enterprises Ltd	2	Census	2
Al-Emir Ltd	2	Census	2
Alibhai Ramji (Msa) Ltd	2	Census	2
Al-Itihad (1998) Ltd	2	Census	2
Almasi Chai Kenya Limited	2	Census	2
Apt Commodities Ltd	2	Census	2
Black Dew Ltd	2	Census	2
Cargill Kenya Ltd	2	Census	2
CEMM Traders Ltd	2	Census	2
Chai Trading Company Limited	2	Census	2
Chamu Supplies	2	Census	2
Cofftea Agencies Ltd	2	Census	2
Devchand Keshavji (Kenya) Ltd	2	Census	2
Diamond Tea Exporters (K) Ltd	2	Census	2
DL Redwood Limited	2	Census	2
Gacal Merchants Ltd	2	Census	2
Global Tea & Commodities	2	Census	2
Gokal Beverage	2	Census	2
Green Leaf Trading Co. Ltd	2	Census	2
Imperial Teas (EPZ) Ltd	2	Census	2
Imperial Teas (Kenya) Ltd	2	Census	2
Indo-African Tea Company (Kenya) Ltd	2	Census	2
James Finlay (Mombasa)	2	Census	2
Jawai Tea Ltd	2	Census	2
Juja Coffee Exporters Ltd	2	Census	2
Kinengena Agro and Mineral Logistics Ltd	2	Census	2
Kirindo Tea Packers	2	Census	2
L.A.B. International (K) Ltd	2	Census	2
Lindop & Company (Kenya) Ltd	2	Census	2
Lula Trading Co.	2	Census	2
Lutex Limited	2	Census	2
M.J. Clarke Ltd	2	Census	2
Maymun Enterprises	2	Census	2
Mcleod Russel Africa Limited	2	Census	2
Mombasa Advance Logistics Limited	2	Census	2
Mombasa Coffee Ltd	2	Census	2
Mombasa Tea Traders Ltd	2	Census	2
Pwani Hauliers	2	Census	2
Ranfer Teas (Kenya) Ltd	2	Census	2
Riotana Trading Limited	2	Census	2
Sardia International Co. Ltd	2	Census	2
Sasini Limited	2	Census	2
Shakab Imports Exports Co. Ltd	2	Census	2
SSOE (Kenya) Ltd	2	Census	2
Stansand (Africa) Ltd	2	Census	2
Summer Liners Company Ltd	2	Census	2
Suwad Enterprise Limited	2	Census	2
Tanjal Tea Company Ltd	2	Census	2
Tecof Trading Ltd	2	Census	2
Tropical Crops Commodities	2	Census	2
Trust Tea Traders Ltd	2	Census	2
United (E.A.) Warehouses Ltd	2	Census	2
Van Rees bv	2	Census	2
Total	**120**		**120**

Primary Data:

The primary data was collected through a self-administered semi-structured questionnaire using the key-informant method. Wu (2006) explains that views of key informants were widely used in marketing studies because they were deemed to be the most knowledgeable about the issues being investigated for which they were directly responsible. The structured questionnaire was with closed-ended questions and a customized five-part likert scale which was used to collect data on the independent variables from the managers. Respondents were asked to indicate agreement with each item. Each item had a five-point scale ranging from1=strongly disagree, 2=disagree, 3=indifferent, 4=agree and 5=strongly agree. The various respondents that were targeted were informed about the purpose of the study. The questionnaires had been preferred because personal administration of questionnaires to individuals helped to develop close relationships with the respondents. The questionnaire also provided the clarifications sought by respondents on the spot by collecting the questionnaires soon after they were filled. The data collected was edited to ensure consistency across respondents and detected omissions. According to Patton (2002), a researcher addressed the design of the study and analysis of the results so that the research could hold quality test and this could be done through reliability. De Vaus (2002) notes that reliability is the ability of the questionnaire to give the same answer in the same circumstances from time to time. This implies that if respondents answer a questionnaire the same way on repeated situations, then the questionnaire is said to be reliable.

Secondary Data:

Information relating to tea buying firms in annual and published financial statements in national newspapers, during annual general meetings messages and in-house magazines was used to provide secondary data information on relevant financial performance indicators. Other important business disclosure in journals, manuals and the tea buying firms at Mombasa Tea Auction documents was used for secondary data collection. The secondary data collected was used to cross validate the primary data collected.

Data Processing, Analysis and Presentation:

Qualitative as well as quantitative methods of data analysis was used to analyze the research variables. A Likert scale was adopted to provide a measure for qualitative data. The scale helped to minimize the subjectivity and make it possible to use quantitative analysis. The numbers in the scale were ordered such that they indicated the presence or absence of the characteristic to be measured, Kothari and Gang (2014). This mix of tools was necessary because whereas some aspects of the study were qualitative others were of quantitative nature.

Qualitative Analysis:

In qualitative studies, the researcher was interested in analyzing information in a systematic way in order to come up with useful conclusions and recommendations. In qualitative studies, the researcher was interested in obtaining detailed information about the phenomena being studied and then try to establish patterns, trends and relationships from the information gathered. Qualitative analysis aimed at providing basic information without proof of it. Before processing the responses, data preparation was done on the completed questionnaire by editing, coding, entering and cleaning the data. Data collected was analyzed using descriptive statistics. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor. Data analysis was done with the help of SPSS version 23.0.

Quantitative Analysis:

Whereas qualitative analysis aimed at providing basic information, quantitative analysis went further to test the theories in the theoretical framework behind the study and prove or disapprove them. For this kind of a study, there was need to go further and test hypothesis. The multiple regression analysis was used to explore the relationship between tea valuation pricing, exchange rate, bank interest rate and inflation rate as the independent variables and financial performance as the dependent variable. Pearson's product moment correlation analysis was used and it is a powerful technique for exploring the relationship among variables. Correlation coefficient was used to analyze the strength of the relations between variables. Correlation coefficients was calculated to observe the strength of the association. A series of multiple regression

analysis (standard and step wise) was used because they provide estimates of net effects and explanatory power. Analysis of variance (ANOVA) was used to test the significance of the model. R^2 was used in this research to measure the extent of goodness of fit of the regression model. The multiple linear regression used to estimate the coefficient was as follows:

$$\mathbf{Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Y = Represents the dependent variable, Financial Performance

β_0= Intercept of regression line

$\beta_1 - \beta_4$ = Partial regression coefficient of the Independent Variables

X_1 = Tea Valuation Pricing

X_2= Exchange Rate

X_3= Bank Interest Rate

X_4 = Inflation Rate

ε = error term

4. DATA ANALYSIS RESULTS AND DISCUSSIONS

Response rate:

High response rate guarantees that the findings are representative of the target population. Emore (2017) notes that a response rate is the extent to which the collected data takes care of all the sample items, a ratio of actual respondents to anticipated number of persons who respond to the study. Questionnaires were self-administered whereby a total of 120 questionnaires were given out by the researcher to respondents. Seventy-five (75) questionnaires were completely filled, returned and used for analysis in this study. This meant that the active sample was 75 respondents and this represented a response rate of 62.5% percent of the sample size which fell within a large sample size. Table 4.1 presents the percentage of response rate of the respondents. According to Kothari and Gang, (2014) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate was adequate for analysis and reporting.

Table 4.1: Questionnaire Response Rate

	Frequency	**Percentage**
Response	75	62.5%
Non-Response	45	37.5%
TOTAL	**120**	**100%**

Coefficient of Correlation:

Pearson Bivariate correlation coefficient was used to compute the correlation between the dependent variable (financial performance) and the independent variables (tea valuation pricing, exchange rate, bank interest rate and inflation rate). According to Sekaran, (2015), this relationship is assumed to be linear and the correlation coefficient ranges from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship). The correlation coefficient was calculated to determine the strength of the relationship between dependent and independent variables (Kothari and Gang, 2014).

In trying to show the relationship between the study variables and their findings, the study used the Karl Pearson's coefficient of correlation (r). This is as shown in Table 4.2 below. According to the findings, it was clear that there was a positive correlation between the independent variables, tea valuation pricing, exchange rate, bank interest rate and inflation rate and the dependent variable financial performance. The analysis indicates the coefficient of correlation, r equal to 0.246, 0.234, 0.100 and 0.340 for tea valuation pricing, exchange rate, bank interest rate and inflation rate respectively. This indicates positive relationship between the independent variable namely tea valuation pricing, exchange rate, bank interest rate and inflation rate and the dependent variable financial performance.

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Table 4.2: Pearson Correlation

Correlations

	Financial Performance	Tea Valuation Pricing	Exchange Rate	Bank Interest Rate	Inflation Rate
Financial Performance	1				
	75				
Tea Valuation Pricing	**.246***	1			
	.034				
	75	75			
Exchange Rate	**.234***	**.655****	1		
	.043	.000			
	75	75	75		
Bank Interest Rate	.100	**.344****	**.390****	1	
	.394	.003	.001		
	75	75	75	75	
Inflation Rate	**.340****	**.552****	**.820****	**.400****	1
	.003	.000	.000	.000	
	75	75	75	75	75

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Coefficient of Determination (R2):

To assess the research model, a confirmatory factors analysis was conducted. The four factors were then subjected to linear regression analysis in order to measure the success of the model and predict causal relationship between independent variables (tea valuation pricing, exchange rate, bank interest rate and inflation rate), and the dependent variable (financial performance).

Table 4.3: Coefficient of Determination (R2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.453[a]	.205	.160	2.13014

a. Dependent variable: Financial Performance
b. Predictors: (Constant), Inflation Rate, Bank Interest Rate, Tea Valuation Pricing, Exchange Rate

The model explains 20.5% of the variance (Adjusted R Square = 0.160) on financial performance. Clearly, there are factors other than the four proposed in this model which can be used to predict financial performance. However, this is still a good model as Cooper and Schinder, (2013) pointed out that as much as lower value R square 0.10-0.20 is acceptable in social science research. This means that 20.5% of the relationship is explained by the identified four factors namely tea valuation pricing, exchange rate, bank interest rate and inflation rate. The rest 79.5% is explained by other factors in the financial performance not studied in this research. In summary the four factors studied namely tea valuation pricing, exchange rate, bank interest rate and inflation rate determines 20.5% of the relationship while the rest 79.5% is explained or determined by other factors.

Regression Analysis:

Analysis of Variance (ANOVA):

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model is as per Table 4.4 below with P-value of 0.003 which is less than 0.05. This indicates that the regression model is statistically significant in predicting factors of financial performance. Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall Anova results indicates that the model was significant at F = 4.521, p = 0.003.

Table 4.4: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82.054	4	20.513	4.521	.003[b]
	Residual	317.626	70	4.538		
	Total	399.680	74			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Inflation Rate, Bank Interest Rate, Tea Valuation Pricing, Exchange Rate

Multiple Regression:

Table 4.5: Multiple Regression

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13.723	1.878		7.307	.000
	Tea Valuation Pricing	.178	.130	.194	2.364	.001
	Exchange Rate	.130	.134	.201	3.977	.003
	Bank Interest Rate	.286	.115	.294	2.495	.015
	Inflation Rate	.356	.130	.516	2.735	.008

a. Dependent Variable: Financial Performance

The regression equation was:

$Y = 13.723 + 0.178\mathbf{X_1} + 0.130\mathbf{X_2} + 0.286\mathbf{X_3} + 0.356\mathbf{X_4}$

Where;

Y = the dependent variable (Financial Performance)

X_1 = Tea Valuation Pricing

X_2 = Exchange Rate

X_3 = Bank Interest Rate

X_4= Inflation Rate

The regression equation above has established that taking all factors into account (financial performance as a result of tea valuation pricing, exchange rate, bank interest rate and inflation rate) constant at zero financial performance was 13.723. The findings presented also shows that taking all other independent variables at zero, a unit increase in tea valuation pricing will lead to a 0.178 increase in the scores of financial performance; a unit increase in exchange rate will lead to a 0.130 increase in financial performance; a unit increase in bank interest rate will lead to a 0.286 increase in the scores of financial performance; a unit increase in inflation rate will lead to a 0.356 increase in the score of financial performance. This therefore implies that all the four variables have a positive relationship with inflation rate contributing most to the dependent variable. From the table we can see that the predictor variables of financial performance as a result of tea valuation pricing, exchange rate, bank interest rate and inflation rategot variable coefficients statistically significant since their p-values are less than the common alpha level of 0.05.

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Table 4.6: Hypotheses Testing

Research Hypothesis	β	t	Sig.	Comments
$H_0$1: Tea Valuation Pricing has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction	.194	2.364	.001	Reject $H_0$1
$H_0$2: Exchange Rate has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction	.201	3.977	.003	Reject $H_0$2
$H_0$3: Bank Interest Rate has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction	.294	2.495	.015	Reject $H_0$3
$H_0$4: Inflation Rate has no significant effect on financial performance of tea buying firms in Mombasa Tea Auction	.516	2.735	.008	Reject $H_0$4

5. SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

Influence of Tea Valuation Pricing on Financial Performance:

From the research findings, tea valuation pricing had an influence on financial performance of tea buying firms in Mombasa Tea Auction. Majority of the respondents found manufacturing cost, market forces, tea grading parameters and forward contracts as key indicators that help to determine the financial performance of tea buying firms in Mombasa Tea Auction. The findings revealed that manufacturing cost, market forces, tea grading parameters and forward contracts had a very strong influence on the financial performance of tea buying firms in Mombasa Tea Auction. Thus, the study results exhibited a high degree of positive significance on influence of tea valuation pricing on financial performance of tea buying firms in Mombasa Tea Auction.

Influence of Exchange Rate on Financial Performance:

From the research findings, exchange rate had an influence on financial performance of tea buying firms in Mombasa Tea Auction. Majority of the respondents found translation exposure, transaction exposure, economic exposure and currency fluctuation as key indicators that help to determine the financial performance of tea buying firms in Mombasa Tea Auction. The findings revealed that translation exposure, transaction exposure, economic exposure and currency fluctuation had a very strong influence on the financial performance of tea buying firms in Mombasa Tea Auction. Thus, the study results exhibited a high degree of positive significance on influence of exchange rate on financial performance of tea buying firms in Mombasa Tea Auction.

Influence of Bank Interest Rate on Financial Performance:

From the research findings, bank interest rate had an influence on financial performance of tea buying firms in Mombasa Tea Auction. Majority of the respondents found monetary policy, cost of borrowing, repayment ability and disposable income as key indicators that help to determine the financial performance of tea buying firms in Mombasa Tea Auction. The findings revealed that monetary policy, cost of borrowing, repayment ability and disposable income had a very strong influence on the financial performance of tea buying firms in Mombasa Tea Auction. Thus, the study results exhibited a high degree of positive significance on influence of bank interest rate on financial performance of tea buying firms in Mombasa Tea Auction.

Influence of Inflation Rate on Financial Performance:

From the research findings, inflation rate had an influence on financial performance of tea buying firms in Mombasa Tea Auction. Majority of the respondents found consumer price index, demand-pull inflation, cost-push inflation and credit induced inflation as key indicators that help to determine the financial performance of tea buying firms in Mombasa Tea Auction. The findings revealed that consumer price index, demand-pull inflation, cost-push inflation and credit induced inflation had a very strong influence on the financial performance of tea buying firms in Mombasa Tea Auction. Thus, the study results exhibited a high degree of positive significance on influence of inflation rate on financial performance of tea buying firms in Mombasa Tea Auction.

Conclusion:

The study sought to investigate the effect of macroeconomic variables on financial performance of tea buying firms in Mombasa Tea Auction. The study concluded the following:

Influence of Tea Valuation Pricing on Financial Performance:

The researcher concluded that tea valuation pricing through manufacturing cost, market forces, tea grading parameters and forward contracts are key financial performance determinants of tea buying firms in Mombasa Tea Auction. Further the researcher concluded that tea valuation pricing plays a key role in the financial performance of tea buying firms in Mombasa Tea Auction. Hence in general there was a statistically significant influence of tea valuation pricing on financial performance of tea buying firms in Mombasa Tea Auction.

Influence of Exchange Rate on Financial Performance:

The researcher concluded that exchange rate through translation exposure, transaction exposure, economic exposure and currency fluctuation are key financial performance determinants of tea buying firms in Mombasa Tea Auction. Further the researcher concluded that exchange rate plays a key role in the financial performance of tea buying firms in Mombasa Tea Auction. Hence in general there was a statistically significant influence of exchange rate on financial performance of tea buying firms in Mombasa Tea Auction.

Influence of Bank Interest Rate on Financial Performance:

The researcher concluded that bank interest rate through monetary policy, cost of borrowing, repayment ability and disposable income are key financial performance determinants of tea buying firms in Mombasa Tea Auction. Further the researcher concluded that bank interest rate plays a key role in the financial performance of tea buying firms in Mombasa Tea Auction. Hence in general there was a statistically significant influence of bank interest rate on financial performance of tea buying firms in Mombasa Tea Auction.

Influence of Inflation Rate on Financial Performance:

The researcher concluded that inflation rate through consumer price index, demand-pull inflation, cost-push inflation and credit induced inflation are key financial performance determinants of tea buying firms in Mombasa Tea Auction. Further the researcher concluded that inflation rate plays a key role in the financial performance of tea buying firms in Mombasa Tea Auction. Hence in general there was a statistically significant influence of inflation rate on financial performance of tea buying firms in Mombasa Tea Auction.

Recommendation:

The study recommends that the Government of Kenya need to constantly review the macroeconomic policies to ensure the tea subsector industry in the country is always cushioned against the following:

1. That the Kenyan government enact policies to ensure cost of production is reasonable and provide farmers with incentives to ensure quality tea production as this will be a recipe for favorable tea prices thus ensuring financial performance of tea buying firms in Mombasa Tea Auction.

2. That the Kenyan government enacts policies to ensure that the foreign reserve account is well equipped so as to ensure reasonable translation and transaction cost while doing tea auction using internationally acceptable currencies. This will caution against high exchange rate and ensure financial performance of tea buying firms in Mombasa Tea Auction.

3. That the Kenyan government enacts monetary and fiscal policies to check on inflation and bank interest rate so as to cushion the tea industry against demand –pull inflation, cost-push inflation and credit induced inflation thus ensuring favorable business working environment and financial performance of tea buying firms in Mombasa Tea Auction.

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